

## Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 OPR-02 XMB-04 OPIC-06 FEA-01

AGR-10 CEA-01 CIAE-00 DODE-00 FRB-01 H-02 INR-07

INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-02 AID-05

CIEP-02 SS-15 STR-04 TAR-01 TRSE-00 USIA-15 PRS-01

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FM AMEMBASSY MUSCAT

TO SECSTATE WASHDC 1368

INFO AMEMBASSY BEIRUT

AMEMBASSY KUWAIT

USDOC WASHDC

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E.O. 11652: N/A

TAGS: EFIN, EIND, EINV

SUBJECT: FOREIGN INVESTMENT CLIMATE IN OMAN

REF: (A) STATE 165596 (B) MUSCAT A-20

1. OUR UPDATED NARRATIVE ON FOREIGN INVESTMENT IN OMAN IS  
AS FOLLOWS:

BEGIN NARRATIVE

A. OMAN HAS A FREE MARKET ECONOMY MARKED BY A MINIMUM OF GOVERN-  
MENT INTERFERENCE. IMPORT DUTIES ARE LOW, AND THE ONLY TRADE  
RESTRICTION OF SIGNIFICANCE IS THE TRADE BOYCOTT AGAINST ISRAEL,  
SOUTH AFRICA, AND RHODESIA. OMAN'S CURRENCY IS FULLY CONVERTIBLE,  
AND THERE ARE NO CONTROLS ON CURRENCY MOVEMENTS OR REPATRIATION  
OF CAPITAL. THE GOVERNMENT GENERALLY ENCOURAGES DIRECT FOREIGN  
INVESTMENT. GOVERNMENT PARTICIPATION IN PETROLEUM AND OTHER  
NATURAL RESOURCE INDUSTRIES TAKES THE FORM OF JOINT VENTURES  
RATHER THAN FULL GOVERNMENT OWNERSHIP.

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B. AN INVESTMENT LAW PROVIDES FOR A MINIMUM OF 35 PERCENT OMANI OWNERSHIP IN BUSINESS EXCEPT BANKS AND SPECIFICALLY EXEMPTED UNDERTAKINGS. LABOR LAWS ESTABLISH PROCEDURES FOR DISMISSING EMPLOYEES AND SETTling DISPUTES, AS WELL AS ENCOURAGING THE GRADUAL REPLACEMENT OF EXPATRIATE PERSONNEL BY OMANI CITIZENS. STRIKES ARE ILLEGAL. WHILE COMPANY INCOME TAXES NORMALLY RANGE FROM 5 PERCENT ON PROFITS BELOW \$50,000 TO 50 PERCENT ON PROFITS ABOVE \$5 MILLION, THE OMANI GOVERNMENT PROVIDES A FIVE-YEAR TAX HOLIDAY FOR FIRMS ENGAGED IN AGRICULTURE, FISHING, AND INDUSTRIAL DEVELOPMENT.

C. THERE HAS BEEN SOME INCREASE IN GOVERNMENT REGULATION OF BUSINESS DURING THE PAST YEAR. THE GOVERNMENT NOW HAS THE POWER TO SET MINIMUM QUALITY STANDARDS, CONTROL THE LEVEL OF PRODUCTION IN PRIORITY INDUSTRIES, AND PREVENT LESS REPUTABLE FOREIGN FIRMS FROM INVESTING IN OMAN. THE GOVERNMENT HAS DECREED ACROSS-THE-BOARD WAGE INCREASES FOR EMPLOYEES OF PRIVATE COMPANIES TO OFFSET THE HIGH COST OF LIVING. RETAIL PRICES OF BASIC FOODSTUFFS ARE NOW INDIRECTLY CONTROLLED BY GOVERNMENT SUBSIDIES.

D. INVESTMENT PROSPECTS ARE LIMITED BY A SMALL POPULATION AND SEVERE SKILLED LABOR SHORTAGES. OTHER DIFFICULTIES INCLUDE A LACK OF ECONOMIC DEVELOPMENT OUTSIDE THE IMMEDIATE CAPITAL AREA AND BOTTLENECKS IN BUILDING MATERIALS AND TRANSPORTATION. ALMOST ALL GOODS ARE IMPORTED, SINCE FEW RAW MATERIALS AND COMMODITIES OTHER THAN PETROLEUM ARE PRODUCED LOCALLY. THE GOVERNMENT HAS DIFFICULTY CONTROLLING RAMPANT INFLATION.

E. THE GOVERNMENT IS GIVING PARTICULAR ENCOURAGEMENT TO FOREIGN FIRMS WHICH WILL EMPLOY A SUBSTANTIAL NUMBER OF OMANIS OR PRODUCE COMMODITIES THAT REDUCE THE NEED FOR IMPORTS. THE GOVERNMENT HAS OFFERED DUTY-FREE IMPORTATION OF RAW MATERIALS AND EQUIPMENT AS AN INCENTIVE TO COMPANIES ENGAGED IN BASIC SECTORS SUCH AS CEMENT AND FLOUR MILLING. HOWEVER, EXTERNAL TARIFFS WILL NOT BE RAISED TO PROTECT INFANT INDUSTRIES. COPPER MINING, AGRICULTURE, FISHING, AND LIGHT INDUSTRY SUCH AS SHOE AND TILE FACTORIES ARE BEING DEVELOPED TO DIVERSIFY EXPORTS AWAY FROM PETROLEUM. IN LINE WITH THE RECENT GOVERNMENT TREND TOWARD TIGHTER FINANCIAL CONTROLS, GOVERNMENT CONTRACTS WITH FOREIGN

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FIRMS ARE SUBJECT TO INCREASING SCRUTINY AND SCREENING.

F. NET BOOK FOREIGN INVESTMENT IN PETROLEUM IS \$82 MILLION, AND FOREIGN INVESTMENT IN OTHER SECTORS IS ESTIMATED AT \$58 MILLION. U.S. INVESTMENT IS ABOUT \$3 MILLION. THE UNITED KINGDOM AND THE NETHERLANDS ARE THE LARGEST FOREIGN INVESTORS.

G. AN OPIC AGREEMENT IS UNDER CONSIDERATION BY THE GOVERN-

MENT.

END NARRATIVE.

2. IT IS DIFFICULT TO GET ACCURATE INVESTMENT STATISTICS FOR SECTORS OTHER THAN PETROLEUM. TOTAL DIRECT INVESTMENT IN OMAN BY ALL COUNTIES AT END OF 1974 WAS ESTIMATED AT \$140 MILLION. FOREIGN COMPANY SHARE OF PETROLEUM DEVELOPMENT (OMAN) EQUITY WAS \$82 MILLION, AFTER OMAN GOVERNMENT PURCHASED SIXTY PERCENT OF PD(O) EQUITY IN 1974. THE TOP THREE COUNTRIES INVESTING HERE WERE BRITAIN, THE NETHERLANDS, AND KUWAIT, AND THEIR INVESTMENT TOGETHER TOTALLED \$120 MILLION.

3. TOTAL U.S. DIRECT INVESTMENT IN OMAN AT END OF 1974 WAS ESTIMATED AT \$3 MILLION. MANUFACTURING REPRESENTED \$2 MILLION AND OTHER INDUSTRIES \$1 MILLION. THERE WAS NO OMANI INVESTMENT IN THE U.S.

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